



TOWER PLACE, SUITE 2600  
3340 PEACHTREE ROAD, NE  
ATLANTA, GEORGIA 30326

404.264.1700  
FAX 404.264.9968

WWW.METCALF-DAVIS.COM

A JOINT VENTURE OF  
CERTIFIED PUBLIC ACCOUNTING FIRMS



439 MULBERRY STREET  
MACON, GEORGIA 31201

912.464.8000 (T)  
912.646.8051 (F)

WWW.MJCPA.COM

September 11, 2008

Georgia Department of Community Health  
Board of Community Health, Audit Committee  
Mr. Richard Robinson, Committee Chair  
Georgia Department of Community Health  
2 Peachtree Street, N.W.  
Atlanta, Georgia 30303

As you may be aware, requirements for financial statement audits are governed by Statements on Auditing Standards (hereinafter referred to as "SAS") promulgated by the Auditing Standards Board of the (hereinafter referred to as "AICPA"). Institute of Certified Public Accountants. For the audit of the **Georgia Department of Community Health** (hereinafter referred to as "Department") fiscal year ended June 30, 2008, we are required to implement several new SAS which, among other things, require the design of auditing procedures based upon our assessment of financial statement risk. In addition, one part of these new standards is SAS No. 114, *Communication With Those Charged With Governance* (hereinafter referred to as "SAS No. 114"), which provides guidance on required communication between auditors and those charged with governance.

SAS No. 114 requires increased communication between auditors and those charged with governance. This open and candid communication between the auditors and those charged with governance should occur throughout the audit process, not just at year-end. While SAS No. 114 encourages the use of professional judgment in deciding with whom to communicate particular matters, the communication is required to be two-way and specific matters are required to be communicated.

In accordance with best practices and the requirements of SAS No. 114, we will begin our communications to you with an overview of the audit responsibilities under accounting standards generally accepted in the United States of America as well as the planned scope and timing of the audit.

During the audit work, our goal will be to obtain from you information relevant to the audit. For example, we may ask for your assistance in understanding the entity and its environment, in identifying appropriate sources of audit evidence and the possibility of fraud. We are interested in your oversight of the financial reporting process and areas where you believe there is a risk of material misstatement of the financial statements.

We have been engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements, of the Department as of and for the year ended June 30, 2008. Accounting standards generally accepted in the United States of America provide for certain required supplementary information ("RSI"), such as management's discussion and analysis ("MD&A"), to accompany the Department's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Department's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by accounting principles generally accepted in the United States of America and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis, and
2. Other Required Supplementary Information:
  - a. Budgetary Comparison Schedule - Budget Fund
  - b. Budgetary Comparison Schedule - Budget Fund, Revenues Compared to Budget
  - c. Budgetary Comparison Schedule - Budget Fund, Expenditures Compared to Budget
  - d. Budgetary Comparison Schedule - Budget Fund, Budget-to-GAAP Reconciliation - Sources/Inflows of Resources
  - e. Budgetary Comparison Schedule - Budget Fund, Budget-to-GAAP Reconciliation - Uses/Outflows of Resources
  - f. Notes to the Required Supplementary Information

Supplementary information other than RSI also accompanies the Department's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements:

1. Schedule of Expenditures of Federal Awards

### **Audit Objectives**

The objective of our audit is the expression of opinions as to whether the Department's basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to above when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (hereinafter referred to as “OMB Circular A-133”).

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of management, the body of individuals charged with governance, others within the entity, specific legislative or regulatory bodies, Federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America established by the Auditing Standards Board (United States); the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

### **Management Responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will assist management with the preparation of the Department’s financial statements, schedule of expenditures of Federal awards, and related notes. The Department’s management is responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of Federal awards, and related notes and for accepting full responsibility for such decisions. Further, the Department’s management will be required to acknowledge in a management representation letter that they have reviewed and approved the financial statements, schedule of expenditures of Federal awards, and related notes prior to their issuance and have accepted responsibility for them. In addition, management will be required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

management, with oversight of the Board of Community Health, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America; and for Federal award program compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Our audit of the basic financial statements does not relieve management or the Board of Community Health, of their responsibilities related to the financial statements.

Management is responsible for making all financial records and related information available to us, including identifying significant vendor relationships in which the vendor has the responsibility for program compliance, and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management, with oversight of the Board of Community Health, is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Department involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Department received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review upon our arrival to perform audit fieldwork.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

Effective two-way communication between our auditors and the Board of Community Health's Audit Committee is important to understanding matters related to the audit and in developing a constructive working relationship. Your insights may assist us in understanding the Department and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate with us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures, your suspicion or detection of fraud, or any concerns you may have about the integrity or competence of senior management.

## **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Our audit approach places a strong emphasis on obtaining an understanding of how the Department functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of the Department. The development of a specific audit plan will begin by meeting with you and with management to obtain an understanding of objectives, strategies, risks, and performance.

We will obtain an understanding of internal control to assess the impact of internal control on determining the nature, timing and extent of audit procedures, and we will establish an overall materiality limit for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error.

We will use this knowledge and understanding, together with other factors, to first assess the risk that errors or fraud may cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides us with parameters within which to design the audit procedures for specific account balances and classes of transactions. Our risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the Department's internal control).

We will then determine the nature, timing and extent of tests of controls and substantive procedures necessary given the risks identified and the controls, as we understand them.

In planning the audit, the materiality limit is viewed as the maximum aggregate amount of misstatements, which if detected and not corrected, would cause us to modify our opinion on the basic financial statements. The materiality limit is an allowance not only for misstatements that will be detected and not corrected but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations,

misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. At the end of the audit, we will inform you of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement. At the conclusion of our audit, we will also require certain written representations from management about the financial statements and related matters.

### **Audit Procedures—Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major Federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under American Institute of Certified Public Accountants professional standards, *Government Auditing Standards*, and OMB Circular A-133. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

## **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Department's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the OMB Circular A-133 for the types of compliance requirements that could have a direct and material effect on each of the Department's major programs. The purpose of those procedures will be to express an opinion on the Department's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

## **Independence**

Our independence policies and procedures are designed to provide reasonable assurance that our firms and their respective personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, without our permission no partner or professional employee of Metcalf Davis or Mauldin & Jenkins is permitted to own any direct financial interest or a material indirect financial interest in a client or any affiliates of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with our Firms' policies. In addition, our Firms' policies restrict certain non-audit services that may be provided by Metcalf Davis or Mauldin & Jenkins and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

## **Nonattest Services**

### *Overview*

We may be engaged to perform certain other services for the Department. It should be understood that, in order to not impair our independence, we will not perform management functions or make management decisions on behalf of the Department. However, we will provide advice and recommendations to assist management in performing its functions and making decisions.

*Management's Responsibilities for Nonattest Services*

The Department agrees to perform the following functions in connection with our performance of any nonattest services:

- Make all management decisions and perform all management functions, including determining account codings and approving all proposed journal entries.
- Designate a competent client employee to oversee the specific services provided and evaluate the adequacy and results of the service.
- Accept responsibility for the results of the nonattest services. This approval may include, but is not limited to: approval of all journal entries, maintaining the general ledger and trial balances.
- Establish and maintain internal controls over accounting activities, including monitoring ongoing activities.

We appreciate the opportunity to be of service to the Department and look forward to working with you throughout the audit process. Below, we have provided contact information should you have questions, concerns or information you wish to share with us.

Very truly yours,



David R. Decker